

The Impact of the 1997 Tobacco Tax Rate Increase in Alaska

An Update

Alaska Department of Revenue

Alaska Department of Health and Social Services

Prepared by

Catherine Schumacher, MD, MSPH
Alaska Department of Health and Social Services, Alaska Division of Public Health

Brett Fried, Economist
Alaska Department of Revenue, Tax Division



June, 2000

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EXECUTIVE SUMMARY

On October 1, 1997, the tax rate for cigarettes and other tobacco products increased in Alaska. In February, 1999 the Department of Health and Human Services and the Department of Revenue issued a report summarizing the information available to date¹. Since that report, additional data have been collected, including information regarding tobacco use among adults and youth in Alaska. Important findings include:

- During the first full year of the tax rate increase (FY 99), taxable sales of cigarettes decreased by 16% and taxable sales of other tobacco products declined by 5%, as compared to FY 97;
- During the first nine months of FY 00, taxable sales of cigarettes remained close to the FY 99 levels;
- During FY 99, tax revenue from cigarettes and other tobacco products was \$47.9 million, as compared to \$16.2 million in FY 97;
- No significant decline in the percent of adults who smoke was detected; however, the proportion of smokers who smoke “every day” decreased, and the proportion who smoke “some days” increased in 1998;
- Most smokers want to quit smoking, and most smokers who quit do so because of concerns about their health; however, cost was a major factor for 27% who quit or attempted to quit;
- Among Alaska high school students, the proportion who had smoked cigarettes in the past 30 days decreased from 37.1% in 1995 to 33.9% in 1999; the proportion who had smoked 20 or more cigarettes in the past 30 days decreased from 21.9% to 18.1%;
- Larger decreases in current smoking and frequent smoking were found among younger students (ninth graders);
- Reported use of chewing tobacco or snuff by youth also decreased;
- The results for youth tobacco use were encouraging, but did not reach statistical significance; more years of data will be needed to determine if a valid trend towards decreased use is occurring.

In summary, after the tax rate increase, there was a 16% decrease in the sale of taxable cigarettes, and a 5% decrease for other tobacco products. Tax revenue from the sale of cigarettes and other tobacco products tripled. Preliminary cigarette sales and tobacco tax revenue data for FY 00 showed little change from FY 99. No evidence of a decline in the percent of adults smokers was detected, but adults appeared to be smoking less. Encouraging results were seen for youth, but more years of data will be needed.

INTRODUCTION

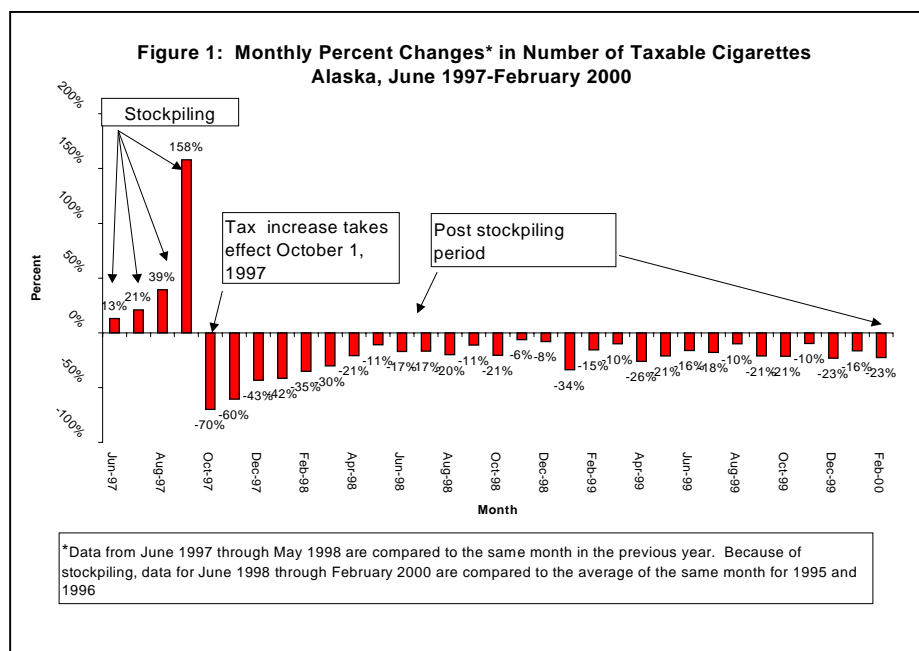
The tax rate for cigarettes and other tobacco products increased in Alaska on October 1, 1997. For cigarettes, the tax rate was increased from \$0.29 to \$1.00 per pack of 20 cigarettes, and for other tobacco products, the tax rate increased from 25% to 75% of the wholesale price.

A previous report included information for FY 98 (June-97 through May-98) and the first five months of FY 99¹. Stockpiling affected the data through May of 1998. The first five months of FY 99, during which time stockpiling no longer affected the data, showed a 17% decrease in taxable sales of cigarettes, a 6% decrease in sales of other tobacco products, and an approximate tripling of tax revenue from cigarettes and other tobacco products. Since that report was published, a full year of data for FY 99 has been accumulated, as well as data for the first nine months of FY 00. In addition, information regarding the prevalence of tobacco use among adults and youth has been collected through the Behavioral Risk Factor Surveillance System and the Youth Risk Behavior Survey. The purpose of this report is to provide an update on the data regarding tobacco sales and tax revenue, and on the prevalence of tobacco use among Alaska adults and youth.

1. SALES OF CIGARETTES AND OTHER TOBACCO PRODUCTS

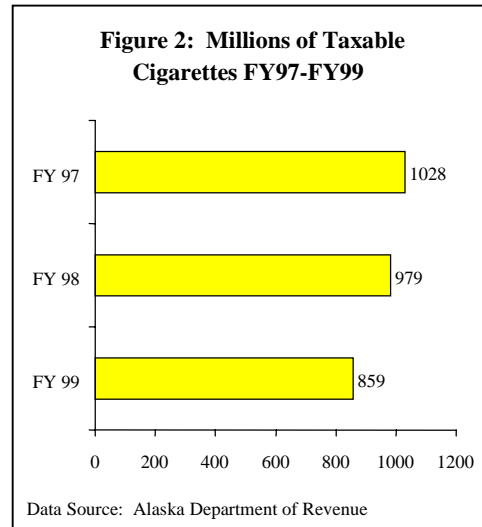
Changes in Monthly Taxable Cigarette Sales

Extensive stockpiling of cigarettes was noted in the time period immediately prior to the tax rate increase, and a temporary drop in sales occurred after the tax rate change was implemented. The effect of stockpiling did not end until approximately May of 1998. Since the stockpiling effect ended, taxable cigarette consumption has been consistently lower than the comparison months (Figure 1).



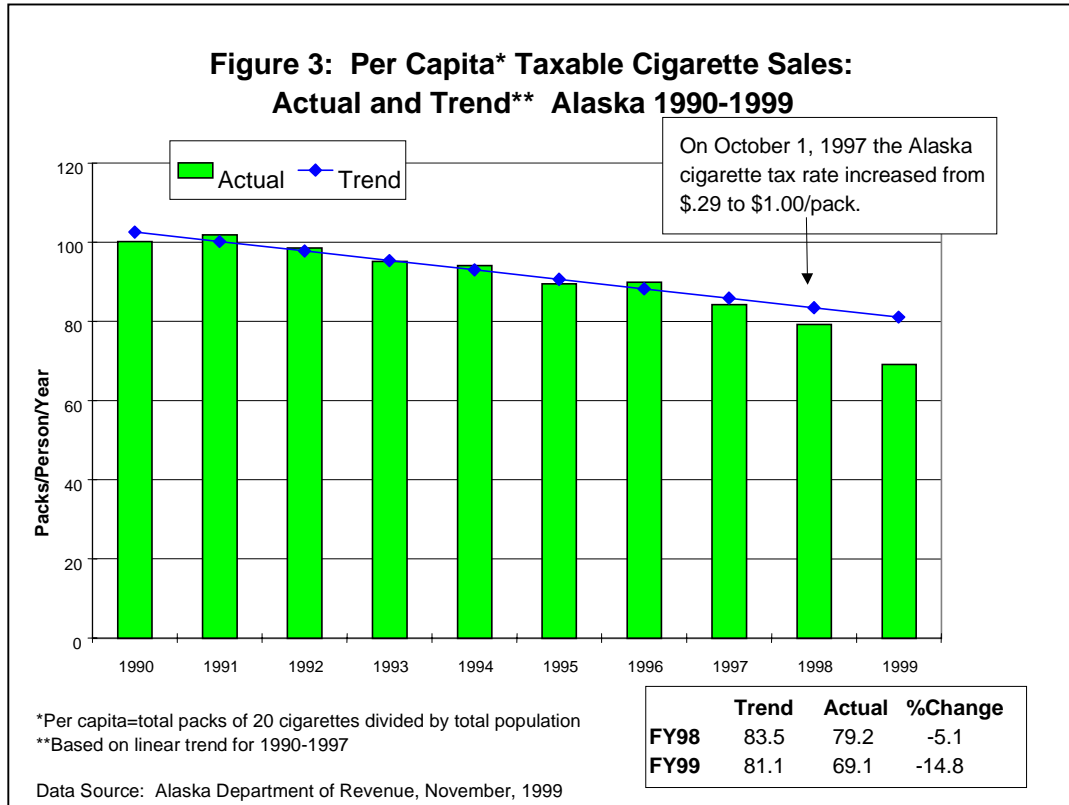
Annual Taxable Cigarette Sales

The sales of cigarettes have fallen substantially in Alaska since the implementation of the tax rate increase. During Fiscal Year 1999, the first full year of implementation, taxable sales fell by 16%, compared to the levels from Fiscal Year 1997 (Figure 2). At the time of this report, data collection for FY 00 are not complete, but the monthly data indicate that taxable sales remain well below levels prior to the tax rate increase.



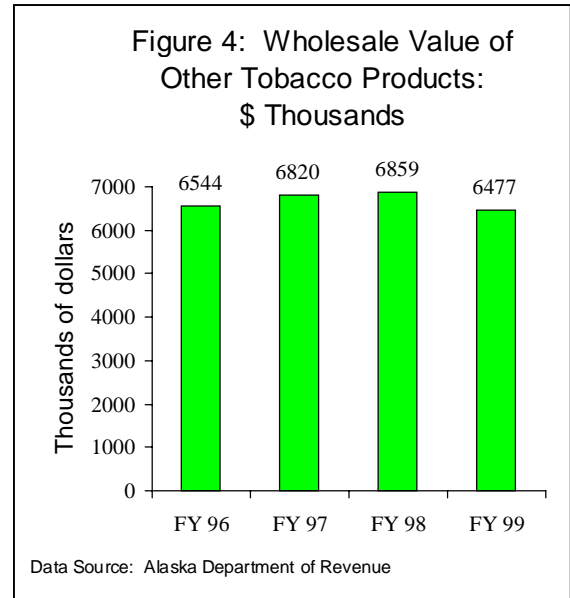
Per Capita Taxable Cigarette Consumption

“Per capita” consumption refers to the number of taxable cigarettes sold per person each year. Prior to the tax rate increase, per capita taxable cigarette consumption had been decreasing at a rate of about 4-5% per year. During the first full year of the tax rate increase (FY 99), per capita taxable cigarette consumption decreased by 14.8% from the level predicted by the trend (Figure 3).



Taxable Consumption of Other Tobacco Products

The term “other tobacco products” refers to snuff, chewing tobacco, cigars, roll-your-own-cigarette tobacco, and pipe tobacco. The Department of Revenue tracks the quantity of other tobacco products by the wholesale value. Prior to the tax increase, consumption was increasing. However, during the first full year the new tax rate was in effect, consumption of other tobacco products decreased by approximately 5% compared to FY 97 (Figure 4).



2. TAX REVENUE FROM SALES OF CIGARETTES AND OTHER TOBACCO PRODUCTS

Despite the decrease in consumption, the tax revenue from tobacco sales tripled. Of the \$47.9 million in tax revenue for FY 99, \$43.1 million was from cigarette sales, and \$4.8 million from sales of other tobacco products. The majority of the increase from cigarettes was deposited in the school fund. The Department of Revenue stepped up its audit and compliance activities in an attempt to identify untaxed cigarettes that may be coming into the state. In addition to its own investigations, the Department continued to collaborate in federal investigations of tax irregularities.

Table 1: Three Year Comparison of State Revenue from Cigarettes and Other Tobacco Products

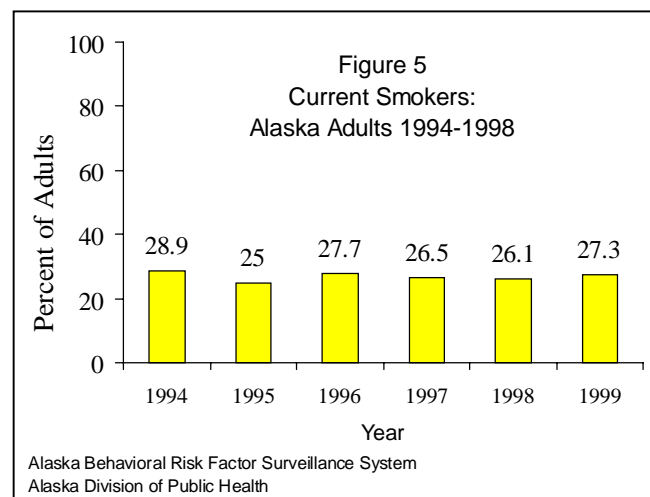
Fiscal Year	Total Revenue
FY 97	\$16.2 million
FY 98	\$31.8 million
FY 99	\$47.9 million

Data source: Alaska Department of Revenue

3. PREVALENCE OF TOBACCO USE AMONG ADULTS

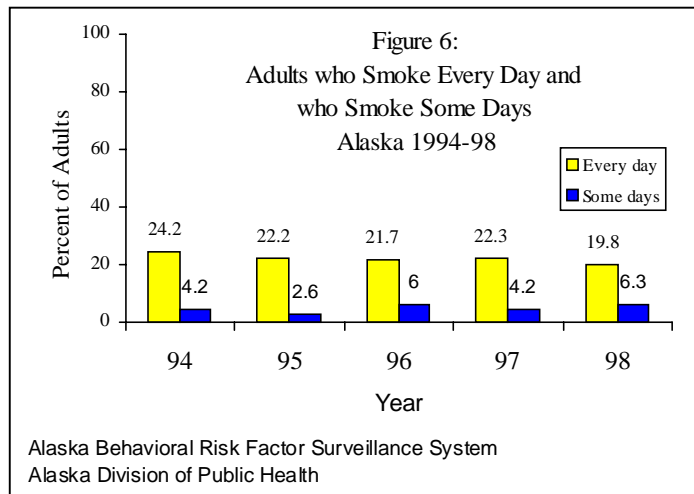
Information about the number of adults who use tobacco is obtained primarily through the Alaska Behavioral Risk Factor Surveillance System, which conducts telephone interviews with a representative sample of Alaskans each year about many health related issues².

During the 1990s, the prevalence of adults who are current smokers remained relatively constant (Figure 5).



It may take several more years for the impact of the tax increase to be reflected in the adult prevalence data.

Nonetheless, the data indicated that smokers may be smoking less frequently, in that percent of adults who smoke every day decreased from 22.3 to 19.8, and the percent who smoked some days increased from 4.2% to 6.3%, comparing 1997 to 1998 (Figure 6).



The data clearly indicated that the vast majority of smokers want to quit smoking. Only 16.6% of smokers stated that they did not intend to quit (Table 2).

Table 2: Intention to quit smoking: Response to question “Which describes what you think about cigarette smoking?” Alaska Behavioral Risk Factor Surveillance System 1998

Response:	Percent of smokers
Intend to quit next month	15.1%
Intend to quit next 1-6 months	33.5%
Intend to quit after 6 months	11.0%
Do not intend to quit	16.6%
Other/Unknown/Refused	23.8%
<i>Data Source: Alaska Division of Public Health</i>	

Former smokers listed their own health as the most common reason for stopping smoking. The health of others and the cost were also important reasons (Table 3).

Table 3: Reasons why smokers quit smoking. Response to the question “What were the reasons the last time you tried to stop smoking?” Alaska Behavioral Risk Factor Surveillance System 1998

Reason*	Percent of former smokers and those who attempted to quit
Concerned about own health	70%
Concerned about the health of others	44%
Cost of cigarettes	27%
Pressure from family/friends	25%
Doctor advised to quit	17%
Pregnancy	10%
Laws restricting smoking	8%
Other reasons	26%
*Respondents were asked to list all that apply <i>Data source: Alaska Division of Public Health</i>	

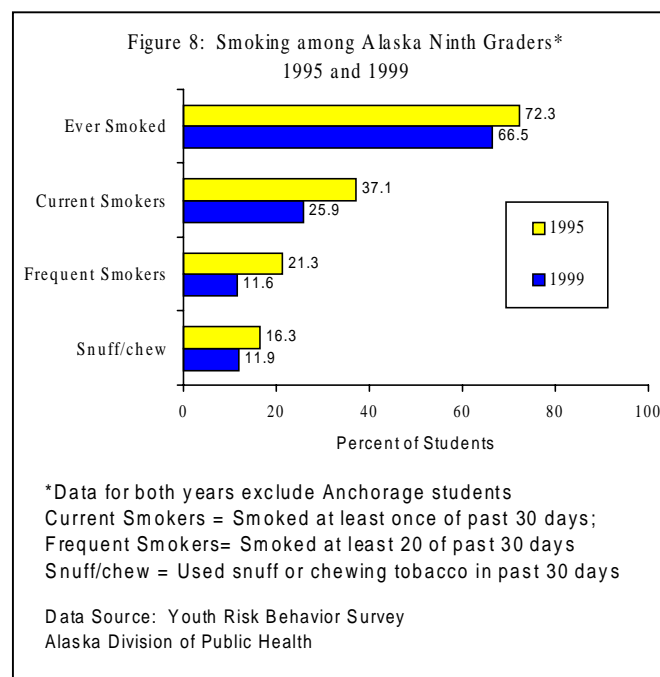
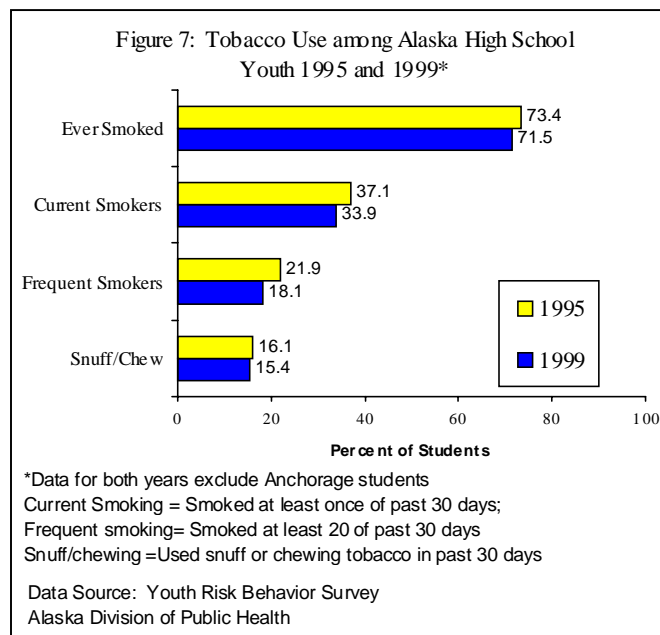
4. PREVALENCE OF TOBACCO USE AMONG YOUTH

The best source of data regarding tobacco use among Alaska youth is obtained through the Alaska Youth Risk Behavior Survey, which obtains self-reported information about health-related behaviors from a representative sample of high school and middle school youth through an anonymous, confidential survey conducted in high schools and middle schools³.

Data are available for 1995 and 1999. In 1999, the Anchorage School District did not participate in the survey. The data presented here for 1995 have been re-analyzed to exclude Anchorage so that the data are comparable. Of note, the results when Anchorage is excluded from the data do not differ substantially from the results when Anchorage is included.

Smoking rates among high school students decreased slightly between 1995 and 1999. These results were encouraging, although the differences did not reach statistical significance and must be interpreted with caution (Figure 7). Smokeless tobacco use may also have declined slightly.

The biggest decreases in tobacco use occurred among younger students (Figure 8). The data showed a 30% reduction in the number of current smokers, and a 46% reduction in the number of frequent smokers among ninth graders. The use of smokeless tobacco also may have decreased. Again, these results were extremely encouraging, but several more years of data will be needed to confirm the results.



Other factors related to tobacco use among youth include enforcement of laws related to sales of tobacco to minors and school policies regarding smoking on school property. The data indicated that students were much less likely to buy their own cigarettes at a store or gas station in 1999 as compared to 1995. Students were also less likely to smoke on school property, although the percent using snuff or chewing tobacco on school property did not change. (Table 4).

Table 4: High School YRBS Data: 1995 and 1999*

	1995	1999
Percent of current smokers who purchased their own cigarettes at a store or gas station in the past 30 days	24.8%	10.1%
Percent of students who smoked cigarettes on school property in the past 30 days	18.8%	13.2%
Percent of students who used chewing tobacco or snuff on school property in the past 30 days	9.0%	9.9%
*Data do not include Anchorage School District <i>Data source: Youth Risk Behavior Survey, Alaska Division of Public Health</i>		

5. CONCLUSIONS

After the tobacco tax rate increase, there was a 16% decrease in taxable cigarette consumption; the decrease continues to persist through the second full year of the tax rate increase. Tax revenue to the state from the sale of cigarettes and other tobacco products tripled. Although there was no evidence of a decline in the prevalence of adult smokers, there did appear to be a decrease in smokers who smoke every day, and an increase in smokers who smoke some days. Smoking rates appeared to have decreased among youth, although several more years of data will be needed to confirm the results.

6. REFERENCES

1. Schumacher C, Fried B: The Impact of the 1997 Tobacco Tax Rate Increase in Alaska. Alaska Department of Revenue and Alaska Department of Health and Social Services. February, 1999. Online at <http://www.hss.state.ak.us/tobacrep.htm>
2. Alaska Behavioral Risk Factor Surveillance System. Unpublished data. Alaska Division of Public Health, Section of Community Health and EMS, Juneau, Alaska.
3. Alaska Youth Risk Behavior Survey. Unpublished data. Alaska Division of Public Health, Section of Epidemiology, Anchorage, AK.